

TESTIMONY ON HB4855 AND 4856: HOUSE COMMERCE COMMITTEE

MR. CHAIRMAN, VICE-CHAIRMAN, MEMBERS OF THE COMMITTEE. IT IS GOOD TO AGAIN MAKE YOUR ACQUAINTANCE AS I REMIND YOU THAT YOU WERE MOST HELPFUL IN FACILITATING THE PASSAGE OF PUBLIC ACT 29 WHICH SOLVED A SERIOUS TAX INCREMENT FINANCING AND ECONOMIC DEVELOPMENT PROBLEM IN BATTLE CREEK.

I AM HERE TO DAY TO DISCUSS HB4855 AND HB4856 LOCATED IN BATTLE CREEK IS DUNCAN AVIATION, A COMPANY HEADQUARTERED IN LINCOLN, NEBRASKA, BUT OPERATING THE NATION'S SECOND LARGEST CORPORATE JET OVERHAUL AND MAINTENANCE FACILITY IN BATTLE CREEK. THE COMPANY EMPLOYS APPROXIMATELY 580 HIGH SKILLED, HIGH WAGE EMPLOYEES IN BATTLE CREEK.

PASSAGE OF THE PROPOSED LEGISLATION WOULD ENABLE THE COMPANY TO ADD TO THOSE NUMBERS AND FIRMLY ESTABLISH OUR STATE ON THE RADAR SCREENS OF AVIATION COMPANIES ACROSS THE NATION.

THE BASIC PROBLEM TO BE FIXED IS THE NEED TO ELIMINATE THE SALES TAX ON AVIATION PARTS TO BE INSTALLED IN NON-MICHIGAN BASED AIRCRAFT. THAT WOULD INCLUDE AIRCRAFT COMING INTO MICHIGAN FOR MAINTENANCE AND OVERHAUL OPERATIONS FROM ALL OVER THE WORLD.

THESE AIRCRAFT ARE NOT BASED IN MICHIGAN AND SHOULD THEREFORE BE CONSIDERED AS TRANSIENTS.

BY IMPOSING A SALES TAX ON AIRCRAFT PARTS AS MICHIGAN CURRENTLY DOES, WE DRIVE THIS BUSINESS TO OTHER STATES LIKE NEBRASKA WHICH EXEMPTS SUCH PARTS FROM STATE TAXATION. THE NET EFFECT FOR OUR STATE IS A CONSIDERABLE LOSS AND THE FOLLOWING EXAMPLES ILLUSTRATE HOW THAT LOSS OCCURS:

ON MAY 24 OF THIS YEAR, A \$1.8 MILLION OVERHAUL JOB ON A JET BASED IN MEXICO CITY WAS SCHEDULED FOR MICHIGAN BUT CANCELLED BY THE CUSTOMER, ONCE THE CUSTOMER REALIZED THE SAVINGS FROM HAVING THE WORK DONE IN A STATE WHERE THE TAX IS NOT IMPOSED. ON THE SAME DATE, DUNCAN WAS SUCCESSFUL IN LANDING A \$9.9 MILLION OVERHAUL JOB. THE CUSTOMER INSISTED THAT THE WORK BE DONE IN NEBRASKA

THE LOSSES TO MICHIGAN AS A RESULT OF THIS SITUATION WERE AND ARE STAGGERING:

THE WORK WAS ENOUGH TO KEEP 100 DUNCAN EMPLOYEES BUSY IN GAINFUL EMPLOYMENT FOR SEVEN MONTHS.

MANY TIMES THE BENEFITS EXTEND WELL BEYOND THE WORK DONE IN

THE DUNCAN FACILITY. IT IS VERY COMMON FOR THE AIRCRAFT CREW TO BE INVOLVED WITH THE WORK AND TO OVERSEE THE REPAIRS AND MAINTENANCE OPERATIONS. THESE PEOPLE STAY IN MICHIGAN HOTELS, EAT IN MICHIGAN RESTAURANTS, RENT MICHIGAN CARS, AND SPEND OTHER DOLLARS AT LOCAL ATTRACTIONS OVER SEVERAL MONTH PERIODS.

OF THE \$9.9 MILLION JOB, APPROXIMATELY \$4 MILLION WAS IN PARTS. THE TAX ON THOSE PARTS WOULD EASILY BE IN THE VICINITY OF \$250k. IT DOES NOT TAKE A WILD LEAP OF FAITH TO CONCLUDE THAT THE CUSTOMER HAD GOOD COST BASED REASONS FOR INSISTING THIS WORK BE DONE IN NEBRASKA.

THE DIVERSION OF THIS WORK MEANS THE STATE MOST LIKELY WOULDN'T COLLECT THE TAX ANYWAY, BUT WHEN YOU TACK ON LESS PROMISING EMPLOYMENT PROSPECTS FOR 100 EMPLOYEES, LOSS OF PURCHASING TO THE STATE, INCLUDING AREAS WHERE OTHER TAXES CAN BE COLLECTED, LIKE HOTELS, AND THE GROWING WORLD PERCEPTION THAT MICHIGAN IS NOT THE PLACE TO HAVE HIGH TECHNOLOGY WORK DONE, THE OVERALL LOSSES TO THE STATE ARE STAGGERING—AT A TIME WHEN WE CAN LEAST AFFORD IT.

REMOVAL OF THE SALES TAX PROVISION WOULD CLEARLY ATTRACT MORE AVIATION BUSINESS TO THE STATE, PROVIDING MORE GAINFUL

EMPLOYMENT, MORE SECONDARY PURCHASES THAT ARE TAXABLE, AND
A BETTER REPUTATION FOR THE STATE IN THE GLOBAL AVIATION
COMMUNITY. WE THEREFORE SEEK YOUR APPROVAL OF THE PROPOSED
LEGISLATION AND WE OFFER OUR MOST SINCERE GRATITUDE TO STATE
REPS MIKE NOFS AND LORENCE WENKE, AS WELL AS MEMBERS OF THIS
COMMITTEE FOR YOUR WILLINGNESS TO CONSIDER REMEDIAL ACTION.

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Jim Hettinger, President/CEO
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